form you
, and
ce
addressed
t our prior

Charles Hale [charles@divestcap.com]
Wednesday, March 08, 2006 6:55 PM
Shlomo Melchior
Gal, Eldad; Gilad

lag: Follow up
Flagged

you please resend me the counter-signed distributor agreement from Glenridge to SightLine that you
)6? I need it pretty badly.

---

expressed in this message is being delivered to you solely for your use in connection with the matters addressed herein and may not be relied upon by any other person or entity or used for any other purpose without our prior written consent.

divestcap

From:	Charles Hale [charles@divestcap.com]
Sent:	Friday, March 10, 2006 8:01 AM
To:	gilad@hartbay.com; Gal, Eldad
Cc:	Michelle Yi
Subject:	Fw: UBS Opportunity
Follow Up Flag:	Follow up
Flag Status:	Flagged

A 5m license, 2m annual maintenance opportunity

-----Original Message-----
From: Reg Webb <Reg.Webb@ppwis.com>
To: Bruce Hill <bruce@divestcap.com>; Darryl McPherson <darryl.mcpherson@sightlinesystems.com>
CC: Ekkehard Seith <ekkehard.seith@intelsof.de>; Hagop Incici (E-Mail) <hagop.incici@intelligent-solutions.ch>
Sent: Fri Mar 10 07:32:49 2006
Subject: UBS Opportunity

Bruce/Darryl

Myself, Ekke , Hagop and Harald had a meeting with UBS yesterday.

We have a tremendous opportunity to secure SightLine on 10,000 servers or more. The team at UBS are really behind SightLine to be rolled out over the enterprise.

UBS have a business requirement that comes from high up in their organization to be able to monitor critical metrics (CPU , memory) on ALL servers in real time (or near real time - lag time of 10-15 minutes) and have this information available to MANAGERS in real time via the Web. Alongside this they have a mandate from senior management to increase server utilisation by 15% per year for the next 5 years. They must have a tool to do this, SightLine is the preferred option but we do have competition from a tool that will meet the above requirements.

The DISA Consolidation model and current planned Automation implementation does not fit the above requirements. Even if it did they would have to manage at least 50 consolidation servers (10,000/200) which they are not going to do.

They require that selected metrics are passed to a database from Agentinge (the database will hold metrics from all 10,000 servers), in ADDITION to being written to a trace file.

Can we have a conference call to discuss above on Tuesday 14 March at 10:00 AM EST , 3:00 PM U.K. time. Please confirm.

This is by far EMEA biggest opportunity to date and gives us the opportunity to turn SightLine into an enterprise solution , and give us a blue chip enterprise reference site!

Regards

Reg

divestcap

From:	Bradley, Jack [jack.bradley@bingham.com]
Sent:	Friday, March 10, 2006 2:21 PM
To:	Charles Hale
Cc:	Gilad, Gal, Eldad; Michelle Yi; Gagan, Sarah K.; Hashimoto, Go; tmuto@eoslip.com; kshime@eoslip.com; Matsunaga, Len; mishii@eoslip.com; Murase, Satoru; shibata.y@sakailaw.com; shotia@eoslip.com
Subject:	RE: Pro Forma SAC GCI 20060307.xls
Follow Up Flag:	Follow up
Flag Status:	Flagged

Charlie,

We should schedule a time to review the open items on the attached email. We are trying to gather sufficient data for both Sightline and GCI in order to prepare the valuation range you requested. To achieve this objective, we need to have additional supporting detail for both companies. Please let me know what time would be convenient for you and I to review the open items. In the interim I have indicated in CAPS items requiring further detail or clarification. In addition ,we still need the following documents which we have requested previously:

1. Audited financials for Sightline and GCI

2. Copies of agreements between Sightline and GCI including the Licensing and Royalty Agreement between these two entities

3. Copy of distribution agreements

4. Change in control agreements which will result in severance or other payments to current employees of Sightline and GCI

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Friday, March 10, 2006 5:50 AM
To: Bradley, Jack
Cc: Gilad; eldad@sagecap.com; Michelle Yi
Subject: RE: Pro Forma SSC GCI 20060307.xls

Jack,

Answers follow.

Best regards,
Charlie

Charlie,

We have the following questions on the material:

1. What does this schedule represent?
   a. This schedule represents the GCI and SSC P&Ls. The principal differences from this P&L and cash will be (i) large end of year billings that typically get paid the first week of January, (ii) deferred compensation from bonuses, which is material when SSC exceeds plan (which we have done each year), and (iii) management fees and dividends, which I have added back in the pro forma. These

management fees are what DivestCap charges SSC. They serve as compensation to DivestCap for buying and managing SightLine. GCI dividends cash out, which is likewise how GCI compensates its principals. IT IS NOT CLEAR FROM THIS EXPLANATION WHICH IF ANY AMOUNTS HAVE BEEN ADDED BACK. PLEASE PROVIDE A SPECIFIC BREAKDOWN OF THE AMOUNTS BY CATEGORY AND WHETHER THEY ARE INCLUDED IN THE FINANCIALS

b. This schedule excludes all pro formas. SightLine is burdened by DivestCap's salaries and expenses. The EBITDA number has not been adjusted upward for these expenses. PLEASE PROVIDE A BREAKDOWN OF THESE AMOUNTS AND WHETHER THESE EXPENSES WILL CONTINUE TO BE CHARGED TO SIGHTLINE POST-CLOSING

2. What were the key assumptions used in preparing the analysis
   a. None, really. These are the actual historical GAAP numbers according to my cash to gaap reconciliation. My financials for GCI and SSC match by the penny to the bank. I am never a perfect match with the auditors on rev rec and ebitda, but am generally within a few hundred thousand dollars.
   b. One issue bears noting: in the pro forma, I have moved a deal from 2004 recognition to 2005. Since I had had concerns about the deal (concerns that turned out to be unfounded), we didn't issue keys until well into '05. At least as far as I am aware, 2005 key issuance makes 2005 recognition mandatory. Accordingly, we will have to restate audited 2004 for this deal. The pro forma reflects this restatement.

3. Please provide a breakdown of all line items between Sightline and GCI. It is important that we understand the cash flows on an individual entity basis
   a. I do not understand why this level of detail is important at this time. AS WE UNDERSTAND THE TRANSACTION WE WILL BE PURCHASING AN OWNERSHIP STAKE IN BOTH COMPANIES AND THAT DIVESTCAP DOES NOT OWN GCI. WE NEED TO UNDERSTAND THE CASH FLOWS TO EACH ENTITY TO UNDERSTAND HOW THE VALUE SHOULD BE ALLOCATED BETWEEN ENTITIES. WE ALSO NEED TO UNDERSTAND THE CASH FLOWS BETWEEN ENTITIES TO AVOID ANY DOUBLE COUNTING OF REVENUES PAID TO GCI BY SIGHTLINE

4. How do Bookings differ from Revenue
   a. A booking is a bona fide order received by a salesperson for which payment is due for services to be rendered or goods to be sold
   b. A billing is an invoice sent to the customer
   c. Revenue is the recognition of these billings and bookings according to the accrual principle of accounting, which matches the billing to the time period in which the services are rendered or product employed.

5. What are GCI bookings
   a. GCI has distributors, of which SightLine Systems is one. These distributors have a 45 – 55% product discount from GCI to sell the product. Since they generally have to sell the product at list price, this discount generates a gap between the price at which they sell the product and the price at which they buy it from GCI, allowing them to pay their costs and try to earn a profit. This is generally how distributors work, and it is how SightLine Systems works.
   b. GCI bookings are currently recorded as the sale amount to the distributors (eg a "net" basis, which lowers revenue). The most advantageous and clearest way for GCI to account for the bookings MAY be to record gross, which shows (i) the end user sale in revenue and (ii) deducts the distributor product discount. Frankly, accounting questions for GCI are beyond my purview – SSC is paid by GCI just to maintain simple, accurate net financials. The fact of the matter, however, is that (i) adding gross data isn't complicated, (ii) gross vs net reporting doesn't affect cash, (iii) the initial net view that estimates gross is generally considered more conservative, and (iv) I will work with GCI to have the gross detail as this process progresses. PLEASE PROVIDE THE NAME OF THE ACCOUNTING CONTACT WE SHOULD TALK WITH AT GCI

6. Please explain the memo line re: Approximate End User Bookings
   a. Approximate end user bookings estimate the GCI sales on a gross rather than a net basis. They are, in other words, the total amount sold to our customers.

7. Please provide a breakdown of the Headcount and Operating Expenses.
   a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

Accounts Paid - Other Suppliers
Contractor: Engineering
Contractor: IT & Accounting
Rent
T&E
Deposits (rent)
MGS Royalties
Marketing
Discounts
Depreciation and Amortization
Bad Debt Expense - Acquired AR
Bad Debt Expense
Other Operating Costs

8. What are the total employees by legal entity.
   a. SightLine has 16, which includes three from DivestCap, which I have not pro-forma'd out of the historical costs. I believe GCI has 1 engineer and 1 person (Shlomo) who administers the agreements with distributors. WE NEED TO UNDERSTAND WHICH OF THE DIVESTCAP PERSONNEL WILL REMAIN WITH SIGHTLINE POST-CLOSING. WE ALSO NEED A BREAKDOWN OF TOTAL SALARIES AND BENEFITS FOR THE SIGHTLINE AND GCI EMPLOYEES

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 07, 2006 3:25 PM
To: Bradley, Jack
Cc: Gilad; eldad@sagecap.com; Michelle Yi
Subject: Pro Forma SSC GCI 20060307.xls

Jack - pro forma attached.

Best regards,
Charlie

---

7. Please provide a breakdown of the Headcount and Operating Expenses.
   a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

Accounts Paid - Other Suppliers
Contractor: Engineering
Contractor: IT & Accounting
Rent
T&E
Deposits (rent)
MGS Royalties
Marketing
Discounts
Depreciation and Amortization
Bad Debt Expense - Acquired AR
Bad Debt Expense
Other Operating Costs

8. What are the total employees by legal entity.
   a. SightLine has 16, which includes three from DivestCap, which I have not pro-forma'd out of the historical costs. I believe GCI has 1 engineer and 1 person (Shlomo) who administers the agreements with distributors. WE NEED TO UNDERSTAND WHICH OF THE DIVESTCAP PERSONNEL WILL REMAIN WITH SIGHTLINE POST-CLOSING. WE ALSO NEED A BREAKDOWN OF TOTAL SALARIES AND BENEFITS FOR THE SIGHTLINE AND GCI EMPLOYEES

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 07, 2006 3:25 PM
To: Bradley, Jack
Cc: Gilad; eldad@sagecap.com; Michelle Yi
Subject: Pro Forma SSC GCI 20060307.xls

Jack - pro forma attached.

Best regards,
Charlie

---

divestcap

From: Charles Hale [charles@divestcap.com]
Sent: Saturday, March 11, 2006 7:47 PM
To: gilad@hartbay.com; Gal, Eldad; Shlomo Melchor
Cc: Michelle Yi
Subject: RE: Pro Forma SAC GCI 20060307.xls
Attachments: International Distributor Agreement (Pathway)_3.F.doc; Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf; International Distributor Agreement - ASCII_2.0 _Final_sign_.pdf; International Distributor Agreement - MegaData_5.F.doc

Follow Up Flag: Follow up
Flag Status: Flagged

Okay response?

Shlomo – I still need the signed copy of the GCI SSC distrib doc. Do you still have it?

Charlie

= = = = = = =

Jack,

I am taking the questions and CAPS questions in order. Here is where I think we stand:

1. Audited financials for Sightline and GCI

a. We do not have audited financials for GCI. I can provide a bank ledgers.

2. Copies of agreements between Sightline and GCI including the Licensing and Royalty Agreement between these two entities

a. In process

3. Copy of distribution agreements

a. I do not have the signed copies since Glenridge is the signee. I do, however, have copies of the final agreements. For now, I trust these can suffice.

<<International Distributor Agreement (Pathway)_3.F.doc>>

<<Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf>>

<<International Distributor Agreement - ASCII_2.0_Final_sign....pdf>> <<International Distributor Agreement - MegaData_5.F.doc>>

4. Change in control agreements which will result in severance or other payments to current employees of Sightline and GCI

a. There are none. We have no severance agreements.

divestcap

From:	Charles Hale [charles@divesicap.com]
Sent:	Saturday, March 11, 2006 7:47 PM
To:	gilad@hartbay.com; Gal, Eldad; Shlomo Melchor
Cc:	Michelle Yi
Subject:	RE: Pro Forma SAC GCI 20060307.xls
Attachments:	International Distributor Agreement (Pathway)_3.F.doc; Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf; International Distributor Agreement - ASCII_2.0 _Final_sign..pdf; International Distributor Agreement - MegaData_5.F.doc
Follow Up Flag:	Follow up
Flag Status:	Flagged

Okay response?

Shlomo -- I still need the signed copy of the GCI SSC distrib doc. Do you still have it?

Charlie

=======

Jack,

I am taking the questions and CAPS questions in order. Here is where I think we stand:

1. Audited financials for Sightline and GCI

a. We do not have audited financials for GCI. I can provide a bank ledgers.

2. Copies of agreements between Sightline and GCI including the Licensing and Royalty Agreement between these two entities

a. In process

3. Copy of distribution agreements

a. I do not have the signed copies since Glenridge is the signee. I do, however, have copies of the final agreements. For now, I trust these can suffice.

<<International Distributor Agreement (Pathway)_3.F.doc>>

<<Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf>>

<<International Distributor Agreement - ASCII_2.0_Final_sign....pdf>> <<International Distributor Agreement - MegaData_5.F.doc>>

4. Change in control agreements which will result in severance or other payments to current employees of Sightline and GCI

a. There are none. We have no severance agreements.

a. This schedule represents the GCI and SSC P&Ls. The principal differences from this P&L and cash will be (i) large end of year billings that typically get paid the first week of January, (ii) deferred compensation from bonuses, which is material when SSC exceeds plan (which we have done each year), and (iii) management fees and dividends, which I have added back in the pro forma. These management fees are what DivestCap charges SSC. They serve as compensation to DivestCap for buying and managing SightLine. GCI dividends cash out, which is likewise how GCI compensates its principals. IT IS NOT CLEAR FROM THIS EXPLANATION WHICH IF ANY AMOUNTS HAVE BEEN ADDED BACK, PLEASE PROVIDE A SPECIFIC BREAKDOWN OF THE AMOUNTS BY CATEGORY AND WHETHER THEY ARE INCLUDED IN THE FINANCIALS

1. There are no add-backs except for approximately a $100,000 management fee from the holding company, a legal bill in year 1 of $60,000 from the transaction, and $100,000 debt payback from the transaction. The other debits are simply profit withdrawls in the form of dividends from GCI and management fees. The full P&L will detail these.

b. This schedule excludes all pro formas. SightLine is burdened by DivestCap's salaries and expenses. The EBITDA number has not been adjusted upward for these expenses. PLEASE PROVIDE A BREAKDOWN OF THESE AMOUNTS AND WHETHER THESE EXPENSES WILL CONTINUE TO BE CHARGED TO SIGHTLINE POST-CLOSING

1. The non-operating expenses that have NOT been added back are $500,000 per year for the following: Salaries for Bruce Hill, Charles Hale, and Michelle Yi at $200,000, $200,000, and $100,000. These will not be charged after closing unless our new CEO hire is not completed. If LAC wishes, we could stay actively involved in management of the company. If we were, we would envision allocating approximately $250,000 for total compensation (we believe market rates are about $210,000 for base compensation with $50,000 bonus and up to $50,000 additional in the event of extraordinary results).

a. I do not understand why this level of detail is important at this time. AS WE UNDERSTAND THE TRANSACTION WE WILL BE PURCHASING AN OWNERSHIP STAKE IN BOTH COMPANIES AND THAT DIVESTCAP DOES NOT OWN GCI. WE NEED TO UNDERSTAND THE CASH FLOWS TO EACH ENTITY TO UNDERSTAND HOW THE VALUE SHOULD BE ALLOCATED BETWEEN ENTITIES. WE ALSO NEED TO UNDERSTAND THE CASH FLOWS BETWEEN ENTITIES TO AVOID ANY DOUBLE COUNTING OF REVENUES PAID TO GCI BY SIGHTLINE

1. Okay. I have the detailed P&Ls and will publish them asap

b. GCI bookings are currently recorded as the sale amount to the distributors (eg a "net" basis, which lowers revenue). The most advantageous and clearest way for GCI to account for the bookings MAY be to record gross, which shows (i) the end user sale in revenue and (ii) deducts the distributor product discount. Frankly, accounting questions for GCI are beyond my purview – SSC is paid by GCI just to maintain simple, accurate net financials. The fact of the matter, however, is that (i) adding gross data isn't complicated, (ii) gross vs net reporting doesn't affect cash, (iii) the initial net view that estimates gross is generally considered more conservative, and (iv) I will work with GCI to have the gross detail as this process progresses. PLEASE PROVIDE THE NAME OF THE ACCOUNTING CONTACT WE SHOULD TALK WITH AT GCI

1. Again, GCI does not have an accountant engaged. We can engage one, but I think doing so should be confirmatory diligence.

a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

1. This Tuesday.

a. This schedule represents the GCI and SSC P&Ls. The principal differences from this P&L and cash will be (i) large end of year billings that typically get paid the first week of January, (ii) deferred compensation from bonuses, which is material when SSC exceeds plan (which we have done each year), and (iii) management fees and dividends, which I have added back in the pro forma. These management fees are what DivestCap charges SSC. They serve as compensation to DivestCap for buying and managing SightLine. GCI dividends cash out, which is likewise how GCI compensates its principals. IT IS NOT CLEAR FROM THIS EXPLANATION WHICH IF ANY AMOUNTS HAVE BEEN ADDED BACK, PLEASE PROVIDE A SPECIFIC BREAKDOWN OF THE AMOUNTS BY CATEGORY AND WHETHER THEY ARE INCLUDED IN THE FINANCIALS

1. There are no add-backs except for approximately a $100,000 management fee from the holding company, a legal bill in year 1 of $60,000 from the transaction, and $100,000 debt payback from the transaction. The other debits are simply profit withdrawls in the form of dividends from GCI and management fees. The full P&L will detail these.

b. This schedule excludes all pro formas. SightLine is burdened by DivestCap's salaries and expenses. The EBITDA number has not been adjusted upward for these expenses. PLEASE PROVIDE A BREAKDOWN OF THESE AMOUNTS AND WHETHER THESE EXPENSES WILL CONTINUE TO BE CHARGED TO SIGHTLINE POST-CLOSING

1. The non-operating expenses that have NOT been added back are $500,000 per year for the following: Salaries for Bruce Hill, Charles Hale, and Michelle Yi at $200,000, $200,000, and $100,000. These will not be charged after closing unless our new CEO hire is not completed. If LAC wishes, we could stay actively involved in management of the company. If we were, we would envision allocating approximately $250,000 for total compensation (we believe market rates are about $210,000 for base compensation with $50,000 bonus and up to $50,000 additional in the event of extraordinary results).

a. I do not understand why this level of detail is important at this time. AS WE UNDERSTAND THE TRANSACTION WE WILL BE PURCHASING AN OWNERSHIP STAKE IN BOTH COMPANIES AND THAT DIVESTCAP DOES NOT OWN GCI. WE NEED TO UNDERSTAND THE CASH FLOWS TO EACH ENTITY TO UNDERSTAND HOW THE VALUE SHOULD BE ALLOCATED BETWEEN ENTITIES. WE ALSO NEED TO UNDERSTAND THE CASH FLOWS BETWEEN ENTITIES TO AVOID ANY DOUBLE COUNTING OF REVENUES PAID TO GCI BY SIGHTLINE

1. Okay. I have the detailed P&Ls and will publish them asap

b. GCI bookings are currently recorded as the sale amount to the distributors (eg a "net" basis, which lowers revenue). The most advantageous and clearest way for GCI to account for the bookings MAY be to record gross, which shows (i) the end user sale in revenue and (ii) deducts the distributor product discount. Frankly, accounting questions for GCI are beyond my purview -- SSC is paid by GCI just to maintain simple, accurate net financials. The fact of the matter, however, is that (i) adding gross data isn't complicated, (ii) gross vs net reporting doesn't affect cash, (iii) the initial net view that estimates gross is generally considered more conservative, and (iv) I will work with GCI to have the gross detail as this process progresses. PLEASE PROVIDE THE NAME OF THE ACCOUNTING CONTACT WE SHOULD TALK WITH AT GCI

1. Again, GCI does not have an accountant engaged. We can engage one, but I think doing so should be confirmatory diligence.

a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

1. This Tuesday.

7. Please provide a breakdown of the Headcount and Operating Expenses.
   a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

Accounts Paid - Other Suppliers
Contractor: Engineering
Contractor: IT & Accounting
Rent
T&E
Deposits (rent)
MGS Royalties
Marketing
Discounts
Depreciation and Amortization
Bad Debt Expense - Acquired AR
Bad Debt Expense
Other Operating Costs

8. What are the total employees by legal entity.
   a. SightLine has 16, which includes three from DivestCap, which I have not pro-forma'd out of the historical costs. I believe GCI has 1 engineer and 1 person (Shlomo) who administers the agreements with distributors. WE NEED TO UNDERSTAND WHICH OF THE DIVESTCAP PERSONNEL WILL REMAIN WITH SIGHTLINE POST-CLOSING. WE ALSO NEED A BREAKDOWN OF TOTAL SALARIES AND BENEFITS FOR THE SIGHTLINE AND GCI EMPLOYEES

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 07, 2006 3:25 PM
To: Bradley, Jack
Cc: Gilad; eldad@sagecap.com; Michelle Yi
Subject: Pro Forma SSC GCI 20060307.xls

Jack - pro forma attached.

Best regards,
Charlie

Accounts Paid - Other Suppliers
Contractor: Engineering
Contractor: IT & Accounting
Rent
T&E
Deposits (rent)
MGS Royalties
Marketing
Discounts
Depreciation and Amortization
Bad Debt Expense - Acquired AR
Bad Debt Expense
Other Operating Costs

8. What are the total employees by legal entity.

a. SightLine has 16, which includes three from DivestCap, which I have not pro-forma'd out of the historical costs. I believe GCI has 1 engineer and 1 person (Shlomo) who administers the agreements with distributors. WE NEED TO UNDERSTAND WHICH OF THE DIVESTCAP PERSONNEL WILL REMAIN WITH SIGHTLINE POST-CLOSING. WE ALSO NEED A BREAKDOWN OF TOTAL SALARIES AND BENEFITS FOR THE SIGHTLINE AND GCI EMPLOYEES

1. Please see above. Regarding the breakdown of salaries, I can provide those in the model. The average base salary is $65,000. The average bonus depends on our results, but has generally been $30,000 (highly levered comp plans based on cash performance).

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 07, 2006 3:25 PM
To: Bradley, Jack
Cc: Gilad; elded@sagecap.com; Michelle Yi
Subject: Pro Forma SSC GCI 20060307.xls

Jack - pro forma attached.

Best regards,

Charlie

divestcap

From: Charles Hale [charles@divestcap.com]
Sent: Monday, March 13, 2006 6:52 PM
To: Bradley, Jack
Cc: Michelle Yi
Subject: FW: Pro Forma SAC GCI 20060307.xls
Attachments: International Distributor Agreement (Pathway)_3.F.doc; Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf; International Distributor Agreement - ASCII_2.0 _Final_sign..pdf; International Distributor Agreement - MegaData_5.F.doc

Follow Up Flag: Follow up
Flag Status: Flagged

Jack,

I received your call but have been locked in meetings over a couple of big sales, and will continue to be for a few more hours. In the meantime, I am taking the questions and CAPS questions in order. Here is where I think we stand:

1. Audited financials for Sightline and GCI

a. We do not have audited financials for GCI. I can provide a bank ledgers.

2. Copies of agreements between Sightline and GCI including the Licensing and Royalty Agreement between these two entities

a. In process

3. Copy of distribution agreements

a. I do not have the signed copies since Glenridge is the signee (except for SSC-GCI, which I have on paper only). I do, however, have copies of the final agreements. For now, I trust these can suffice.

<<International Distributor Agreement (Pathway)_3.F.doc>>

<<Domestic Distributor Agreement Stratus 10-30-03 [revised ..pdf>>

<<International Distributor Agreement - ASCII_2.0_Final_sign....pdf>> <<International Distributor Agreement - MegaData_5.F.doc>>

4. Change in control agreements which will result in severance or other payments to current employees of Sightline and GCI

a. There are none. We have no severance agreements.

a. This schedule represents the GCI and SSC P&Ls. The principal differences from this P&L and cash will be (i) large end of year billings that typically get paid the first week of January, (ii) deferred compensation from bonuses, which is material when SSC exceeds plan (which we have done each year), and (iii) management fees and dividends, which I have added back in the pro forma. These management fees are what DivestCap charges SSC. They serve as compensation to DivestCap for buying and managing SightLine. GCI dividends cash out,

which is likewise how GCI compensates its principals. IT IS NOT CLEAR FROM THIS EXPLANATION WHICH IF ANY AMOUNTS HAVE BEEN ADDED BACK, PLEASE PROVIDE A SPECIFIC BREAKDOWN OF THE AMOUNTS BY CATEGORY AND WHETHER THEY ARE INCLUDED IN THE FINANCIALS

1. There are no add-backs except for approximately a $100,000 management fee from the holding company, a legal bill in year 1 of $60,000 from the transaction, and $100,000 debt payback from the transaction. The other debits are simply profit withdrawls in the form of dividends from GCI and management fees. The full P&L will detail these.

b. This schedule excludes all pro formas. SightLine is burdened by DivestCap's salaries and expenses. The EBITDA number has not been adjusted upward for these expenses. PLEASE PROVIDE A BREAKDOWN OF THESE AMOUNTS AND WHETHER THESE EXPENSES WILL CONTINUE TO BE CHARGED TO SIGHTLINE POST-CLOSING

1. The non-operating expenses that have NOT been added back are $500,000 per year for the following: Salaries for Bruce Hill, Charles Hale, and Michelle Yi at $200,000, $200,000, and $150,000. These will not be charged after closing unless our new CEO hire is not completed. If LAC wishes, we could stay actively involved in management of the company. If we were, we would envision allocating approximately $250,000 for total compensation (we believe market rates are about $210,000 for base compensation with $50,000 bonus and up to $50,000 additional in the event of extraordinary results).

a. I do not understand why this level of detail is important at this time. AS WE UNDERSTAND THE TRANSACTION WE WILL BE PURCHASING AN OWNERSHIP STAKE IN BOTH COMPANIES AND THAT DIVESTCAP DOES NOT OWN GCI, WE NEED TO UNDERSTAND THE CASH FLOWS TO EACH ENTITY TO UNDERSTAND HOW THE VALUE SHOULD BE ALLOCATED BETWEEN ENTITIES. WE ALSO NEED TO UNDERSTAND THE CASH FLOWS BETWEEN ENTITIES TO AVOID ANY DOUBLE COUNTING OF REVENUES PAID TO GCI BY SIGHTLINE

1. Okay. I have the detailed P&Ls and will publish them asap

b. GCI bookings are currently recorded as the sale amount to the distributors (eg a "net" basis, which lowers revenue). The most advantageous and clearest way for GCI to account for the bookings MAY be to record gross, which shows (i) the end user sale in revenue and (ii) deducts the distributor product discount. Frankly, accounting questions for GCI are beyond my purview – SSC is paid by GCI just to maintain simple, accurate net financials. The fact of the matter, however, is that (i) adding gross data isn't complicated, (ii) gross vs net reporting doesn't affect cash, (iii) the initial net view that estimates gross is generally considered more conservative, and (iv) I will work with GCI to have the gross detail as this process progresses. PLEASE PROVIDE THE NAME OF THE ACCOUNTING CONTACT WE SHOULD TALK WITH AT GCI

1. Again, GCI does not have an accountant engaged. We can engage one, but I think doing so should be confirmatory diligence.

a. Headcount is base and bonus for SightLine's employees. OpEx includes the following. We will have the detail in the full P&Ls, which will match the summary detail. WHEN CAN WE EXPECT TO RECEIVE THE FULL P&L'S

1. This Tuesday.

Accounts Paid - Other Suppliers
Contractor: Engineering
Contractor: IT & Accounting

Rent
T&E
Deposits (rent)
MGS Royalties
Marketing
Discounts
Depreciation and Amortization
Bad Debt Expense - Acquired AR
Bad Debt Expense
Other Operating Costs

8. What are the total employees by legal entity.

a. SightLine has 16, which includes three from DivestCap, which I have not pro-forma'd out of the historical costs. I believe GCI has 1 engineer and 1 person (Shlomo) who administers the agreements with distributors. WE NEED TO UNDERSTAND WHICH OF THE DIVESTCAP PERSONNEL WILL REMAIN WITH SIGHTLINE POST-CLOSING. WE ALSO NEED A BREAKDOWN OF TOTAL SALARIES AND BENEFITS FOR THE SIGHTLINE AND GCI EMPLOYEES

1. Please see above. Regarding the breakdown of salaries, I can provide those in the model. The average base salary is $65,000. The average bonus depends on our results, but has generally been $30,000 (highly levered comp plans based on cash performance).

regards, jack

-----Original Message-----
From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 07, 2006 3:25 PM
To: Bradley, Jack
Cc: Gilad; eldad@sagecap.com; Michelle Yi
Subject: Pro Forma SSC GCI 20060307.xls

Jack - pro forma attached.

Best regards,

Charlie

divestcap

From: Gilad [Gilad@hartbay.com]
Sent: Tuesday, March 14, 2006 10:29 PM
To: Gal, Eldad
Subject: FW: This is Shiraishi of LAC

Follow Up Flag: Follow up
Flag Status: Flagged

From: Charles Hale [mailto:charles@divestcap.com]
Sent: Tuesday, March 14, 2006 8:40 PM
To: michinori.shiraishi@lac.co.jp
Cc: shibata.y@sakailaw.com
Subject: Re: This is Shiraishi of LAC

Dear Shiraisan,

I am concerned that we are entering into full due diligence without any indicative offer from LAC. We have 3 customer deals I am trying to win while trying to close our books for the tax deadline of tomorrow. We do not have time to waste on a process that is not well defined.

I will provide by tonight if possible p&ls, a cash reconciliation and a forecast so LAC can give us an indicative offer.

We are expecting the indicative offer to consist of the range of the price, the structure of the deal (how much LAC will acquire, finance etc), and the break up fee.

We would expect this offer by next Tuesday assuming I can deliver information tonight. As you have heard from Matsumura-san, this is a competitive situation.

Based on the above, we would be prepared to give exclusivity for one month, during which we could engage in mutual and dedicated diligence with the goal of achieving a mutually successful transaction.

Best regards,
Charlie

-----Original Message-----
From: 白石 通紀 <michinori.shiraishi@lac.co.jp>
To: Charles Hale <charles@divestcap.com>
CC: shibata.y@sakailaw.com <shibata.y@sakailaw.com>
Sent: Tue Mar 14 19:03:34 2006
Subject: This is Shiraishi of LAC

Dear Mr. Hale

I am Michinori Shiraishi working as Director in Office
Management Division of LAC.
I am the person in charge of this business.
We would like to let business succeed by all means.
So Director Nishimoto visited you in February, and President
Miwa and Director Takeuchi will visit today.

However, I heard a complaint of you from Mr Matsumura of GS.
Mr Shibata is a lawyer doing an agent of our company as you know, he is going to visit you on the afternoon of 16th or 17th with that purpose to solve your problem. Are your circumstances good ?
If you could be good, Please inform to Shibata about the situation that you are troubled. And please give the information that we need in order to let business succeed.

Best regards

Michinori Shiraishi

SUMMARY P&L

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Revenue				
Software	2,020,197	949,972	2,501,545	3,020,600
Service	60,178	21,592	64,000	40,000
Maintenance	792,882	2,950,816	3,512,177	4,382,858
GCI	927,199	2,111,300	1,714,192	2,502,883
Total Revenue	3,810,456	6,033,680	7,791,914	10,046,241
		58%	29%	29%
Total Cost of Sales	813	1,092	1,902	1,609
Headcount Expenses	1,484,228	1,969,942	1,364,408	2,027,790
OpeEx (a)	(207,255)	690,442	917,961	941,948
EBITDA	2,532,670	3,371,305	5,507,613	7,077,277
Distributions & Non-Operating Expenses	(154,255)	(913,629)	(1,695,513)	(798,530)
Cash After Distributions and Non-Operating Expenses	2,378,414	2,457,606	3,312,100	6,278,363
Memo: Approximate End User Sales	5,662,174	8,883,935	10,106,073	13,560,139

CASH SOURCES & USES

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Net Income (From Cash Flow Statement) [a]	2,378,414	2,457,606	3,312,100	6,278,363
Plus: Depreciation from PP&E	18,652	28,181	4,936	2,564
Increase (Decrease) in Deferred Revenue	+ 1,486,945	(229,860)	(392,248)	(416,980)
(Increase) Decrease in Working Capital	(2,444,645) +	2,129,558	(789,576)	(125,250)
Less Investing activities (Cap Ex) [b]	(23,156)	(14,329)	(40,744)	-
Cash from (Used in) Financing [c]	(70,707) +	90,315	(399,445)	(3,769,710)
Cash (Used for) Dividends to Investors	(665,000)	(3,335,139)	(2,137,793)	(2,700,000)
Increase (Decrease) in Cash	682,303	1,126,338	(442,771)	(733,022)

(a) Management fees treated as expense and therefore reduce net income. These are added back in the bridge, below

(b) CapEx estimated for 2005

(c) Vendor pre-pays, debt payback from buyout

OPERATING CASH FLOW

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Increase (Decrease) in Cash	682,303	1,126,338	(442,771)	(733,022)
Add Back: Dividends	+ 665,000 +	3,335,139 +	2,137,793	2,700,000
Add Back: Vendor Pre-Pays, Payback of Buyout Financing	+ 154,257 +	126,621 +	399,258	3,864,000
Add Back: Management Fees to Investors	- +	786,628 +	1,600,000	800,000
Timing: GCI Payment in Transit Over 12/31 Closing	+ 1,541,571	(1,871,862) +	328,911	-
Timing: DISA Transition to Billing in Arrears	-	- +	111,218	1,334,610
Timing: Accelerated Cash Deal	-	(786,537) +	786,537	-
Less: Deferred Revenue Build from Buyout	(619,896) +	619,896	–	-
Operating Cash Flow	2,423,635	3,336,211	4,921,946	7,965,588
Variance from EBITDA	4%	1%	2%	-11%

SUMMARY P&L

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Revenue				
Software	2,030,197	949,972	2,501,545	3,020,500
Service	60,178	21,592	64,000	40,000
Maintenance	792,862	2,950,816	3,512,177	4,382,858
GCI	927,199	2,111,300	1,714,192	2,602,883
Total Revenue	3,810,456	6,033,680	7,791,914	10,046,241
		[illegible]	[illegible]	[illegible]
Total Cost of Sales	513	1,992	1,932	1,609
Headcount Expenses	1,484,228	1,980,942	1,884,408	2,027,790
OpEx (a)	(207,255)	680,442	917,961	941,948
EBITDA	2,532,670	3,371,305	5,007,613	7,077,277
Distributions & Non-Operating Expenses	(154,255)	(913,699)	(1,695,513)	(798,530)
Cash After Distributions and Non-Operating Expenses	2,378,414	2,457,606	3,312,100	6,278,363
Memo: Approximate End User Sales	5,082,174	6,883,835	10,106,073	13,580,133

CASH SOURCES & USES

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Net Income (From Cash Flow Statement) [a]	2,378,414	2,457,606	3,312,100	6,276,353
Plus: Depreciation from PP&E	18,852	25,181	4,935	2,564
Increase (Decrease) in Deferred Revenue	+ 1,488,945	(229,960)	(392,248)	(416,980)
(Increase) Decrease in Working Capital	(2,444,345) +	2,129,859	(769,576)	(125,260)
Less Investing activities (Cap Ex) [b]	(23,158)	(14,526)	(40,744)	-
Cash from (Used In) Financing [c]	(70,707) +	90,318	(399,446)	(3,789,710)
Cash (Used for) Dividends to Investors	(885,000)	(3,335,138)	(2,137,793)	(2,700,000)
Increase (Decrease) in Cash	682,303	1,126,339	(442,771)	(733,022)

(a) Management fees treated as expense and therefore reduce net income. These are added back in the bridge, below
(b) CapEx estimated for 2005
(c) Vendor pre-pays, debt payback from buyout

OPERATING CASH FLOW

	Actual 2003	Actual 2004	Actual 2005	Forecast 2006
Increase (Decrease) in Cash	682,303	1,126,338	(442,771)	(733,022)
Add Back: Dividends	+ 665,000 +	3,335,138 +	2,137,793	2,700,000
Add Back: Vendor Pre-Paye, Payback of Buyout Financing	+ 154,257 +	126,631 +	398,258	3,364,000
Add Back: Management Fees to Investors	- +	786,628 +	1,600,000	300,000
Timing: GCI Payment in Transit Over 12/31 Closing	+ 1,541,971	(1,871,882) +	329,911	-
Timing: DISA Transition to Billing in Arrears	-	- +	111,218	1,334,610
Timing: Accelerated Cash Deal	-	(786,537) +	786,537	-
Less: Deferred Revenue Build from Buyout	(619,896) +	619,896	-	-
Operating Cash Flow	2,423,635	3,336,211	4,921,946	7,965,598
Variance from EBITDA	4%	1%	2%	-11%